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June 20, 2006

AGENDA ITEM 3-A

**TO: MEMBERS OF THE BENEFITS AND PROGRAM ADMINISTRATION
COMMITTEE**

I. SUBJECT: AB 2355 (Negrete McLeod)—
As Amended May 26, 2006

California State University Academic Employees

Sponsor: California Faculty Association

II. PROGRAM: Legislation

III. RECOMMENDATION: Neutral

This bill would change the payroll reporting requirement for California State University (CSU) academic employees who are granted a reduced pay leave.

IV. ANALYSIS:

This bill would allow California State University (CSU) academic employees granted a reduced pay leave, such as a sabbatical or difference in pay leave, on or after January 1, 2007 to receive full service credit during the leave through a payroll reporting process instead of through a service credit purchase option after return to full employment at the end of the leave. The employee and employer would be required to contribute to the retirement fund the amount that would have been contributed if the member was not on a reduced pay leave.

Background

Under current provisions of the Public Employees' Retirement Law (PERL), a CSU academic employee may elect to purchase service credit for a partially compensated, reduced pay leave, such as a sabbatical or difference in pay leave. During the leave the employee receives partial service credit based on his or her full-time payrate and reduced earnings as reported by the employer. To be eligible to purchase the remaining service credit, the employee must return to CalPERS-covered employment after the leave of absence and be an active or inactive CalPERS member at the time he or she elects to purchase service credit. The cost

to purchase this service credit is calculated using the “present value” method, which requires the employee to pay for the full increase in liability of the service credit purchase.

There are two types of reduced pay leaves available to active CSU academic employees - sabbatical leave and difference in pay leave. A sabbatical leave or difference in pay leave must be granted for the purpose of providing a benefit to the CSU, such as research, scholarly and creative activity, instructional improvement, or faculty retraining.

Sabbatical Leaves

A full-time faculty employee shall be eligible for a sabbatical leave if he or she has served full-time for six years at that campus in the preceding seven year period prior to the leave and at least six years after any previous sabbatical leave or difference in pay leave. A faculty employee on sabbatical leave shall be considered in work status and shall receive health, dental and appropriate fringe benefits provided by the CSU in the same manner as if he or she were not on sabbatical leave. The salary of faculty employee on sabbatical leave shall be in accordance with the following:

- a. one semester at full salary;
- b. two semesters at one-half of full salary;
- c. one quarter at full salary;
- d. two quarters at three-fourths of full salary; or
- e. three quarters at one-half of full salary.

Difference in Pay Leaves

A full-time faculty employee shall be eligible for a difference in pay leave if he or she has served full-time for six years at that campus in the preceding seven year period prior to the leave and at least three years after any previous sabbatical leave or difference in pay leave. A faculty employee on a difference in pay leave shall be considered in work status and shall receive health, dental and appropriate fringe benefits provided by the CSU in the same manner as if he or she were not on a difference in pay leave. The salary for a difference in pay leave shall be the difference between the faculty employee's salary and the minimum salary of the instructor rank.

Reduced Workload Program – CSU Faculty

Existing provisions in the PERL also provide that CSU faculty employees who have reached the age of fifty-five and have been employed in the CSU for at least 10 years on a full-time basis are eligible for a Reduced Workload Program. This program allows a CSU faculty employee to work a reduced time base. However, CSU would report to CalPERS the payrate and earnings the employee would

receive if he or she worked full-time. The employee and employer would be responsible for making contributions to the retirement fund based on the full-time earnings reported, and the employee would receive service credit based on the full-time earnings reported.

Proposed Changes

This bill would allow CSU academic employees granted a reduced pay leave on or after January 1, 2007 to elect to receive full service credit during the reduced pay leave. The employer would be required to report the pay rate and earnings the employee would receive if not on a reduced pay leave. The employee and employer would contribute to the retirement fund the amount that would have been contributed if the member was not on a reduced pay leave.

Legislative History

- 2003 Chapter 855 (SB 268, Soto) – Revised provisions of the law related to the election and payment requirement for service credit elections and cost calculations including discontinuance of service credit payments if the member becomes disabled or dies under special death circumstances and changes to future installment payments to include an actuarial adjustment to prevent loss of revenues to employers. *CalPERS' position: Co-Sponsor.*
- 2000 Chapter 489 (AB 2840, Committee on Public Employees, Retirement and Social Security) – Provided for uniformity in calculation of the cost of various forms for service retirement that can be purchased by CalPERS members in order to increase retirement service credit to enhance their retirement allowance. Specifically, this legislation provided a costing method for partially compensated leaves which requires the member to offset any employer liability for benefits from the credit election. *CalPERS' position: Sponsor.*
- 1989 Chapter 891 (SB 1633, C. Green) – Amended sections of the Government Code which prescribe costs for those members who elect to redeposit withdrawn contributions or contribute for public service credit or leaves of absence. *CalPERS' position: Support.*
- 1981 Chapter 1023 (AB 1162, Moore) – Extended the existing retirement law provisions relating to part-time employment of certain employees of the California State University and College System and certificated employees of school districts. *CalPERS' position: Neutral*
- 1969 Chapter 1226 (AB 257, Barnes) – Revised provisions of the law for service credit in addition to that received for prior service and service for various types of absences from covered employment and for employment with employers not participating in the System. Made contribution and interest

requirements for the crediting of the service uniform and deleted inoperative additional service credit provisions and preserved credit granted for service under those provisions. *CalPERS' Position: Sponsor.*

- 1968 Chapter 467 (SB 599, Deukmejian) – Permitted crediting of full-time service for absences where partial compensation is received and part-time service credit was previously received. The Board opposed this legislation because the bill increased the benefit costs for the State and other employers under the System. *CalPERS' Position: Oppose.*

Issues

1. Arguments by Those in Support

The sponsor of this bill has indicated that this legislation will allow CSU faculty to receive full service credit for reduced pay leaves, with the additional CalPERS contribution costs shared by the employee and the employer. Current law limits service credit to be calculated as a percentage of a faculty member's base salary. Faculty are penalized in their service credit calculation when they receive reduced pay for sabbaticals or other "difference in pay" leaves, even if they are working full-time during the leave period.

Organizations in Support: California Faculty Association (sponsor)

2. Arguments by Those in Opposition

CSU states they are concerned with the potential cost being placed on them without any additional funds being provided to them, potentially requiring them to make cuts in other areas. In addition, CSU believes that this is a bargainable issue under Higher Education Employer Relations Act ("HEERA")

The Department of Finance states they are opposed to the bill as introduced because allowing academic employees from the California State University to buy back service credits with a reduced contribution would create an undetermined increase in cost to the state by increasing the state's unfunded liability.

Organizations in Opposition: California State University, Department of Finance

3. Reporting Requirement Consistent With the Reduced Workload Program

This bill would change the reporting requirements for CSU academic employees who are granted reduced pay leaves on or after January 1, 2007. These reporting requirements would be consistent with the reduced workload program already administered by CSU for its faculty. When a CSU academic employee is on a reduced pay leave, CSU would report payrate and earnings to CalPERS

as if the employee was not on a reduced pay leave. The employee and employer would be responsible for making contributions to the retirement fund based on the earnings reported, and the employee would receive service credit based on the payrate and earnings reported.

4. Legislative Policy Standards

The Board's Legislative Policy Standards suggest a neutral or no position on proposals which do not significantly affect the benefit interests of our stakeholders and which do not significantly impact CalPERS' benefits or the administration of the system. AB 2355 would change the payroll reporting requirements applied to CSU academic employees who are granted reduced pay leaves.

V. STRATEGIC PLAN:

This item is not a specific product of the Annual or Strategic Plans, but it is part of the regular and ongoing workload of the Office of Governmental Affairs.

VI. RESULTS/COSTS:

Changing reduced pay leaves from a service credit purchase option and requiring the CSU to report payrate and earnings as if the employee was not on a reduced pay leave should not have an impact on the total liabilities. However, some cost would be transferred from the employee to the employer.

Program Costs

There are about 36,000 CSU members under State Miscellaneous First Tier plan. Based on CalPERS data, an estimated 2,770 CSU members took sabbaticals between December 3, 1974 and December 2005. The following table contains age and salary information on those 2,770 members based on the participant data used in the June 30, 2004 actuarial valuation of the State Miscellaneous First Tier plan.

Age	Number of Members	Average Salary
Less than 30 years old	6	\$45,000
31 to 40 years old	64	\$56,000
41 to 50 years old	559	\$77,000
51 to 60 years old	1532	\$85,000
More than 60 years old	609	\$85,000

Although, the proposed legislation is prospective only and there are no valid statistics on how many of the 2,770 members would have qualified if the proposed legislation had been in effect, the data could be used to estimate the potential cost

impact. Using an average salary of \$83,000 based on the table above and the 06/07 State Miscellaneous First Tier Employer Rate of 16.997%, the following table provides estimates of the cost impact for a sabbatical leave.

Estimated Cost Impact of a Sabbatical Leave

Length of Sabbatical Leave	Additional salary reported	Additional Employer Contributions	Additional Employee Contributions
1 semester at full salary	\$0	\$0	\$0
2 semesters at ½ salary	\$41,500	\$7,054	\$2,075
1 quarter at full salary	\$0	\$0	\$0
2 quarters at ¾ salary	\$20,750	\$3,527	\$1,038
3 quarters at ½ salary	\$41,500	\$7,054	\$2,075

Note that the costs in the above table are estimates only. The actual cost for each member will vary depending on the salary of the member and the type of leave.

Administrative Costs

This bill should reduce the number of reduced pay leave credit purchase elections made through CalPERS by CSU academic employees resulting in a corresponding reduction in administrative costs.

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